

# KENTUCKY PUBLIC PENSION WORKING GROUP

## *INVESTMENTS*

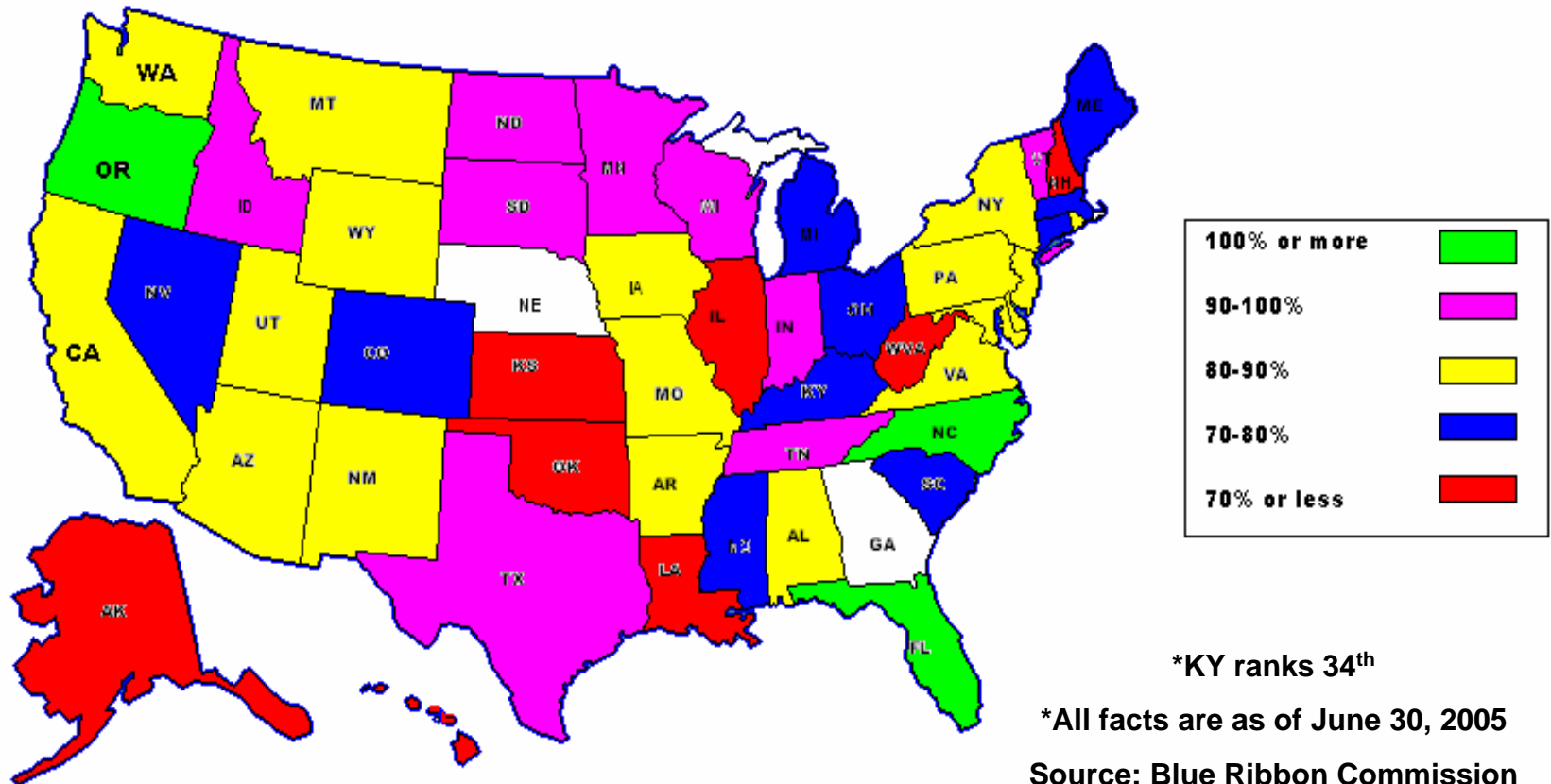
## THE COMMONWEALTH'S RETIREMENT CRISIS

All Dollars in Millions

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
KERS	\$6,737	\$15,751	\$9,014
CERS	\$8,580	\$13,849	\$5,268
SPRS	<u>\$464</u>	<u>\$981</u>	<u>\$516</u>
Total KRS	\$15,781	\$30,580	\$14,799
KTRS	<u>\$15,426</u>	<u>\$27,184</u>	<u>\$11,758</u>
Grand Total	\$31,207	\$57,764	\$26,557

Sources: June 30, 2007 KRS and KTRS CAFR's

## Funding Levels for State Administered Public Employees Pension Plans



\*KY ranks 34<sup>th</sup>

\*All facts are as of June 30, 2005

Source: Blue Ribbon Commission  
Retirement Systems Member Packet

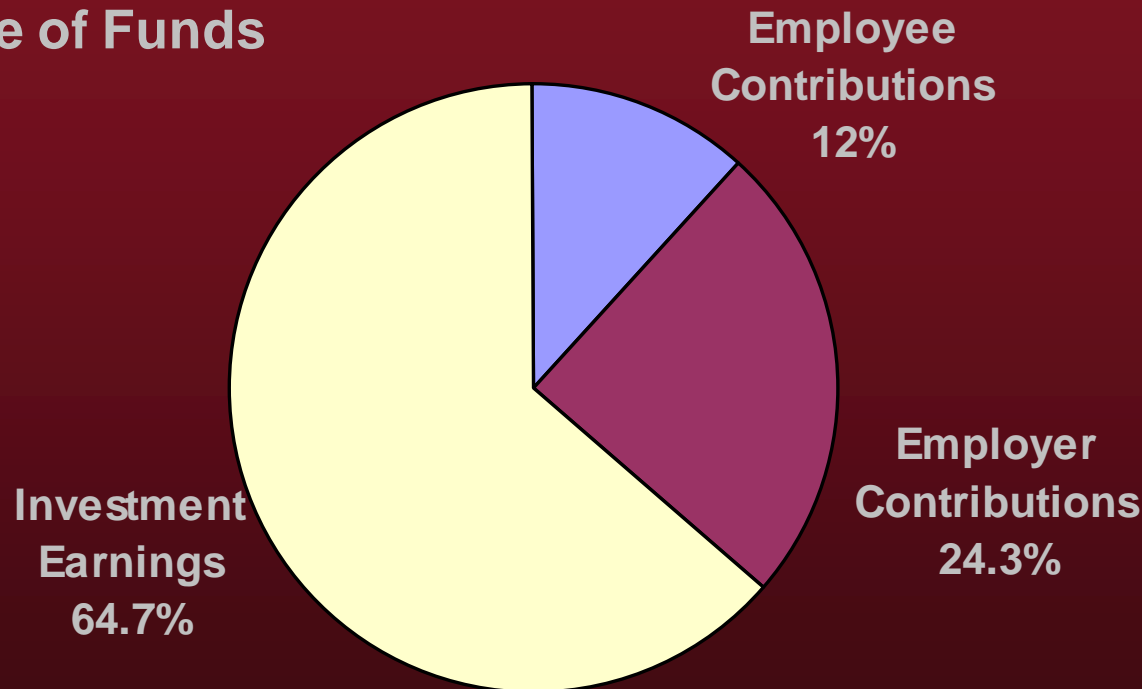
# THE COMMONWEALTH'S RETIREMENT CRISIS

## WHY INVESTMENT RETURNS MATTER

The two systems combine paid out benefits of over \$2 billion during fiscal year 2007. There are three sources for these funds, Employee contributions, Employer contributions, and Investment earnings.

Nationwide, the cumulative distribution of these sources of funds from 1982 to 2005 were as follows:

### Source of Funds



# THE COMMONWEALTH'S RETIREMENT CRISIS

## HOW DID WE GET HERE?

- Change in accounting rules – GASB 43 and 45.
- Under-funding of Employer Contribution.
- Growth in Health Care Costs.

## THE COMMONWEALTH'S RETIREMENT CRISIS

### CHANGE IN ACCOUNTING RULES

Government Accounting Standards Board (GASB) Pronouncements 43 and 45 changed the accounting for Other Post-Employment Benefits (OPEB) from a Pay-As-You-Go basis to a full actuarial basis similar to the requirements for Pension.

Unfunded Accrued Actuarial Liability as reported in the State CAFR

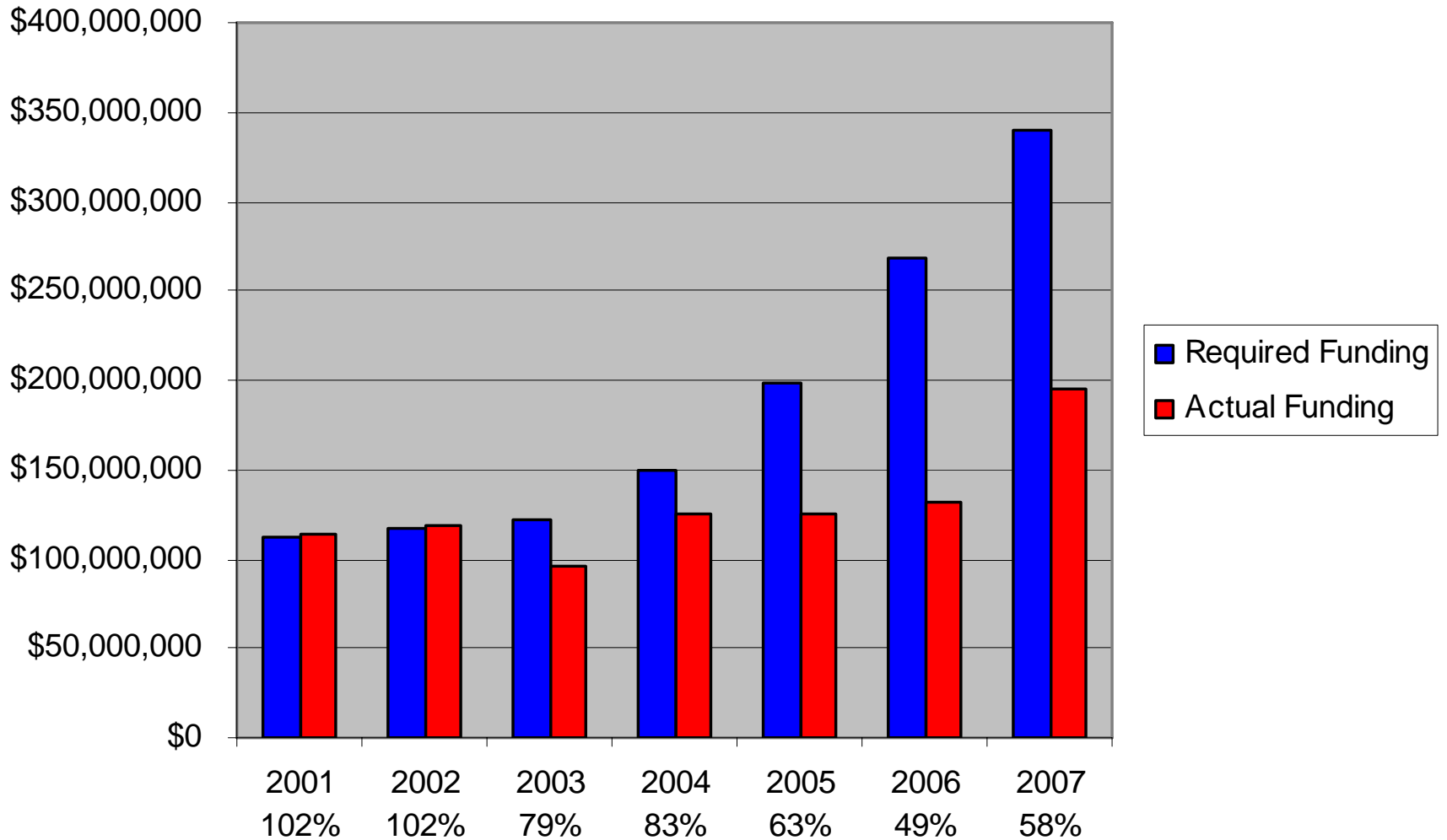
	<u>6/30/2006</u>	<u>6/30/2007</u>	<u>Change</u>
KERS	\$0	\$4,833,489	\$4,833,489
SPRS	\$0	\$ 317,547	\$ 317,547
KTRS	\$0	\$5,787,989	\$5,787,989
Total	\$0	\$10,939,025	\$10,939,025

(CERS is not included in the state CAFR.)

As can be seen, a jump from 0 to \$11 billion is a substantial accounting change.

Source: June 30, 2007 Commonwealth of Kentucky CAFR

# KERS Funding Deficit



## THE COMMONWEALTH'S RETIREMENT CRISIS

### EXAMPLE OF GROWING HEALTH CARE COSTS

The rapid pace of health care inflation greatly influences the cost to the retirement systems. The following chart shows total monthly cost of health insurance, family coverage, offered from the state for a number of years. This is the sum of both employee and employer cost.

<u>Year</u>	<u>Cost</u>	<u>% Change</u>
2006	\$1,215	18%
2005	\$1,032	32%
2004	\$ 782	4%
2003	\$ 755	9%
2002	\$ 694	12%
2001	\$ 617	7%
2000	\$ 575	

Source: Presentation to Interim Joint Committee on State Government dated September 27, 2006



## Kentucky Defined Benefit Retirement Systems

- Kentucky Retirement Systems (KRS) – provides pension and post-retirement medical benefits for state and local government employees plus certain school board employees.
- Kentucky Teachers' Retirement System (KTRS) – provides pension and post-retirement medical benefits for teachers in the public school systems and certain public universities.
- Kentucky Legislators' Retirement System – not under the purview of this work group.
- Kentucky Judicial Retirement System – not under the purview of this work group

## Kentucky Defined Contribution Retirement System

- Kentucky Public Employees' Deferred Compensation Authority (KPEDCA) – provides voluntary 401K and 457 plans for member organizations. This also is not under the purview of this work group.

# KENTUCKY TEACHERS' RETIREMENT SYSTEM

## GENERAL INFORMATION

- Manages the retirement benefits for employees of “175 local school districts, 17 Department of Education Agencies and other education organizations, 5 universities and also the Kentucky Community and Technical College System”.
  - The members are “any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university”.
  - As of June 30, 2007, there were 75,144 active members, 39,506 retired members with annual payroll of \$1.1 billion.
  - The system held net assets as of June 30, 2007 of roughly \$15.6 billion.
  - The system is overseen by a Board of Trustees. This Board consists of 7 individuals elected by members and 2 ex-officio members – the State Treasurer and Commissioner, Department of Education.
  - Gary Harbin, CPA is the Executive Secretary.
  - Paul Yancey, CFA is the Chief Investment Officer.
  - Additional information is available at the website [www.ktrs.ky.gov](http://www.ktrs.ky.gov).
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- Source: June 30, 2007, KTRS Comprehensive Financial Annual Statement (CAFR).

# KENTUCKY TEACHERS' RETIREMENT SYSTEM

## SUMMARY OF BENEFITS

### PENSION BENEFITS

- Benefits are available after 27 years or age 55 plus 5 years of service.
- The benefit is calculated as 2.50% of the final five year average salary multiplied by years of service. For university members the factor is 2.00%. There are certain exceptions.
- Benefits are reduced for early retirement.
- University employees contribute 7.625% of their salary and non-university employees contribute 9.105% of their salary.
- University members participate in Social Security. Other members do not participate in Social Security.
- This benefit is subject to the inviolable contract.

### OTHER POST-EMPLOYMENT BENEFITS

- Medical benefits available after 27 years of service or age 55 and 5 years.
- Pre-age 65 retirees participate in State Group Health Plan (SGHP) while retirees 65 and over participate in KTRS self-insured Medicare Eligible Health Plan.
- The cost of participation to the retiree is increased for early retirement.
- There are certain spousal and dependent children benefits.
- All current employees contribute 0.75% of salary towards retirement medical benefits.
- This benefit is not covered by the inviolable contract.
  
- Sources: June 30, 2007 KTRS CAFR and Summary Plan Description available of KTRS website.

## KENTUCKY TEACHERS' RETIREMENT SYSTEM SUMMARY INVESTMENT INFORMATION

- Assets under management at June 30, 2007 - \$15,538,000,000
- Members of the Investment Committee of the Board:
  - Mr. Robert Conley – Chair
  - Mr. Ronald Sanders – Vice-Chair
  - Mr. Gary Harbin, CP – Executive Secretary of KTRS
- Executive Investment Staff:
  - Mr. Gary Harbin, CPA – Executive Secretary
  - Mr. Paul Yancey, CFA – Chief Investment Officer
- Investment Consultant:
  - Becker, Burke Associates, Inc.
- Source: June 30, 2007 KTRS CAFR

# KENTUCKY RETIREMENT SYSTEMS OVERVIEW

KRS actually runs 3 separate retirement systems with various subdivision within those systems.

- Kentucky Employee Retirement System (KERS) – Members are primarily employees or retirees of state government and the various agencies of state government. There is both a non-Hazardous and a Hazardous component.
- County Employee Retirement System (CERS) – Members are primarily employees or retirees of local government organizations within the Commonwealth. Certain employees of the various school boards are members of CERS. There is both a non-Hazardous and a Hazardous component.
- State Police Retirement System (SPRS) – Members are primarily employees or retirees from the Kentucky State Police. All are treated as Hazardous employees.

## KENTUCKY RETIREMENT SYSTEMS GENERAL INFORMATION

- As of June 30, 2007, there were more than 316,000 active, inactive and retired members with annual benefit payments of nearly of \$1.2 billion.
  - The system held net assets as of June 30, 2007 of roughly \$17 billion.
  - The system is overseen by a Board of Trustees. This Board consists of 5 individuals elected by members, 3 lay trustees selected by the Governor and 1 ex-officio member – the Secretary, Personnel Cabinet.
  - Mike Burnside is the Executive Director.
  - Adam Tosh, CFA is the Chief Investment Officer.
  - Additional information is available at the website [www.kyret.com](http://www.kyret.com).
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- Source: June 30, 2007, KTS Comprehensive Financial Annual Statement (CAFR).

# KENTUCKY RETIREMENT SYSTEMS

## SUMMARY OF BENEFITS

### PENSION BENEFITS – non-Hazardous

- Full benefits are available after 27 years or age 65 plus 4 years of service.
- The benefit is calculated as 2.00% of the highest five year average salary multiplied by years of service. There is currently a window open for retirement with additional benefits. This window closes December 31, 2008.
- Benefits are reduced for early retirement.
- Members contribute 5.00% of their salary.
- Members do participate in Social Security.
- Except for the annual COLA, this benefit is subject to the inviolable contract.

### PENSION BENEFITS – Hazardous, including SPRS

- Full benefits are available after 20 years or age 55 plus 5 years of service.
- The benefit is calculated as approximately 2.50% of the highest three year average salary multiplied by years of service.
- Benefits are reduced for early retirement.
- Members contribute 8.00% of their salary.
- Members do participate in Social Security.
- Except for the annual COLA, this benefit is subject to the inviolable contract.

- Source: June 30, 2007 KRS CAFR.

# KENTUCKY RETIREMENT SYSTEMS

## SUMMARY OF BENEFITS

### OTHER POST-EMPLOYMENT BENEFITS FOR PRE JULY 1, 2003 HIRES

- Medical benefits available after 20 years for non-Hazardous, after 15 years for Hazardous.
- Pre-age 65 retirees participate in State Group Health Plan (SGHP) while retirees 65 and over participate in KRS self-insured Medigap plan.
- The cost of participation to the retiree is increased for early retirement.
- There are certain spousal and dependent children benefits.
- Current employees do not contribute towards retirement medical benefits.
- This benefit is covered by the inviolable contract.

### OTHER POST-EMPLOYMENT BENEFITS FOR POST JULY 1, 2003 HIRES

- Medical benefits available after 20 years for non-Hazardous, after 15 years for Hazardous.
- Members receive \$10.00 per month per year of service, adjusted by inflation, to subsidize participation in State Group Health Plan (SGHP) for under 65 retirees while retirees 65 and over participate in KRS self-insured Medigap plan.
- Current employees do not contribute towards retirement medical benefits.
- This benefit is not covered by the inviolable contract.

- Sources: June 30, 2007 KRS CAFR.



## KENTUCKY RETIREMENT SYSTEM SUMMARY INVESTMENT INFORMATION

- Assets under management at June 30, 2007 - \$17,372,000,000
- Members of the Investment Committee of the Board:
  - Mrs. Susan Horne – Chair
  - Mrs. Patricia Ballenger
  - Mr. Lynn Harpring
  - Mr. Bobby Henson
  - Mr. Randy Overstreet
- Chief Investment Officer:
  - Mr. Adam Tosh, CFA
- Investment Consultant:
  - Strategic Investment Solutions, Inc.

Source: June 30, 2007 KRS CAFR and April 2008 Board of Trustee minutes